

Message Text

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E.O. 11652: N/A

TAGS: EFIN, IN

SUBJ: WORLD BANK AID AND DEBT PAPER

REF: STATE 058537

SUMMARY: LOCAL OFFICIALS OF THE BANK HAVE SOFTENED SOME OF THEIR RATHER EXTREME POSITIONS TAKEN IN THE BANK'S STAFF PAPER BUT CONTINUE TO INSIST THAT MAJOR INCREASES IN AID LEVELS FROM THE CONSORTIUM, EASTERN EUROPEAN AND OIL PRODUCING COUNTRIES ARE REQUIRED. A NEW ONE YEAR FORECAST PAPER IS BEING PREPARED. END SUMMARY

1. WE VERY MUCH APPRECIATE THE KIND WORDS IN THE REFTEL AND CONCUR FULLY IN THE APPROACH ENVISAGED FOR THE APRIL MEETING I.E., LOW KEY PROBING OF ISSUES AND VIEWS OF OTHERS.

2. WE HAVE DISCUSSED THE BANK'S PAPER AND GENERAL APPROACH WITH THE BANK'S STAFF AND THE LOCAL REPRESENTATIVES OF ALL MAJOR CONSORTIUM COUNTRIES. THESE TALKS HAVE YIELDED THE FOLLOWING RESULTS:

3. EXPORTS: BANK STAFF NOW CONCEDES THAT PAPER'S ESTIMATE WAS FAR TOO LOW AND THAT AN INCREASE OF SEVERAL HUNDRED MILLION DOLLARS IN 1974-74 AND FUTURE YEARS WOULD BE IN ORDER.

4. IMPORTS. WE CONTINUE TO QUESTION WHETHER THE GOI WILL IMPORT

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AT THE LEVELS INDICATED IN THE BANK'S PAPER. NEXOHWEEK'S

ANNOUNCEMENT OF 1974-75 ON IMPORT POLICY MAY GIVE US A MORE FORMAL FIX ON THIS. THE BANK CONTINUES TO MAINTAIN THAT A HIGH LEVEL OF IMPORTS IS REQUIRED FOR ECONOMIC DEVELOPMENT I.E., WHETHER OR NOT IMPORT LEVELS WILL BE HIGH, THEY SHOULD BE HIGH. THIS MAY BE TRUE BUT IS AT BEST CONFUSING IN A BALANCE OF PAYMENTS EXERCISE.

5. FERTILIZER: BANK HAS REDUCED ESTIMATE OF FERTILIZER IMPORTS FROM 1.8 TO 1.5 MILLION TONS, IT CLAIMS THAT LOWER LEVEL OF IMPORTS WILL COST MORE THAN PREVIOUS ESTIMATE DUE TO FURTHER PRICE INCREASES. IN OUR OPINION THE ONLY WAY IMPORTS WILL REACH 1.5 MILLION TON LEVEL IS BY LARGE BARTER TYPE DEALS WITH POLAND AND HUNGARY WHICH CURRENTLY UNDER NEGOTIATION. WE CONTINUE TO BELIEVE PAPER'S ESTIMATE OF BALANCE OF PAYMENTS COSTS TO BE TOO HIGH.

6. PETROLEUM: BANK ACKNOWLEDGES THAT 16 MILLION TON ESTIMATE FOR 1974-75 IS TOO HIGH AND 15 MILLION TONS MIGHT BE MORE ACCURATE. IN FACT, GOI HAS DECIDED TO REDUCE IMPORTS TO 1972-73 LEVEL (13 MILLION TONS). IN ADDITION BANK IS NOW AWARE OF IRAN/IRAQ CRUDE PRICE ARRANGEMENT WHICH WILL SAVE GOI ABOUT \$200 MILLION IN 1974-75.

7. NON CONSORTIUM AID: BANK ACKNOWLEDGES THAT STATEMENTS ON 1974-79 FLOW OF RESOURCES TO INDIA REPRESENTS INDIAN AND BANK HOPES RATHER THAN ANY COMMITMENT. THIS ISSUE OF HOW TO REVERSE NEGATIVE FLOW OF RESOURCES REMAINS UNRESOLVED.

8. TERMS OF TRADE: BANK CLAIMS THAT RECENT STUDIES SHOW THAT, EVEN LEAVING PETROLEUM ASIDE, TERMS OF TRADE HAVE TURNED SHARPLY AGAINST INDIA. WE HAVE SEEN NO DATA ON THIS SINCE PUBLISHED GOI MATERIAL IS FAR OUT OF DATE.

9. GENERAL: WHILE THE BANK IS EXTREMELY DEFENSIVE ON THIS POINT, IT BASICALLY ACKNOWLEDGES THAT AT PRESENT A FIVE YEAR FORECAST CANNOT BE VERY MEANINGFUL. IT IS PREPARING A ONE YEAR FORECAST WHICH IT HOPES TO HAVE READY FOR THE APRIL MEETING. BANK CONTINUES TO MAINTAIN THAT IT IS FUTILE FOR IT TO MAKE RECOMMENDATIONS FOR CHANGES IN GOI POLICY EVEN THOUGH IT PRIVATELY CRITICAL OF MANY GOI POLICIES.

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10. DEBT RESCHEDULING: THE BUREAU EXPECTS THAT THE GOI WILL PRESS FOR DEBT RESCHEDULING ON A MUCH LARGER SCALE THAN IN THE PAST. WHILE THERE HAS BEEN SOME TALK OF A FULL ONE YEAR MORATORIUM THIS REMAINS UNLIKELY. FIFTY PERCENT RESCHEDULING (ABOUT \$300 MILLION) SEEMS A MORE LIKELY TARGET.

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